

**MEMORANDUM**

June 13, 2022

TO: Government Operations and Fiscal Policy (GO) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: Resolution to approve the Tax Supported Fiscal Plan Summary for the FY23-28 Public Services Program

PURPOSE: Make recommendations to the Council

**Those expected for this worksession:**

Jennifer Bryant, Director, Office of Management and Budget (OMB)  
Chris Mullin, Manager, OMB  
Nancy Feldman, Fiscal Management Chief, Finance  
Dave Platt, Chief Economist, Finance

See the proposed resolution and Tax Supported Fiscal Plan Summary for the FY23-28 Public Services Program on ©1-4. The resolution and fiscal plan summary are based upon the fiscal decisions the Council approved on May 26, 2022 for the FY23 Operating Budget. The Council introduced the proposed resolution and fiscal plan summary on June 14, 2022, and the Council is tentatively scheduled to enact it on June 21, 2022.

**Council staff recommends approval of the resolution and attached fiscal plan based on the Council's decisions on May 26, 2022.**

**I. Context**

Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

[Council Resolution No. 19-753](#) states that the “*County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals*”. The Council approved for the first time a six-year fiscal plan that was balanced for the entire period in June 2010. Each June since 2010, the Council has taken similar action. The fiscal plan is then updated every year in December, three months before the release of the Executive’s next recommended budget.

The FY23-28 Tax Supported Fiscal Plan Summary, like all versions of the fiscal plan, reflects current fiscal projections and policy assumptions when the Council adopted the FY23 Operating Budget and the FY23-FY28 Capital Improvements Program (CIP). **Future versions of the FY23-28 Tax Supported Fiscal Plan Summary will change as economic and fiscal conditions are better understood.** The December 2022 update will reflect changes to FY23-28 revenue estimates. The March 2023 version, included with the Executive’s recommended budget, will include revised revenue projections and updated expenditures for the County Government and its agencies in FY23.

## **II. Fiscal Projections and Policy Assumptions**

The policy assumptions for this version of the Fiscal Plan are listed in the notes on ©3 and below.

- a) Property taxes are at the Charter Limit with a \$692 credit. Other taxes are at current rates.
- b) Reserve contributions are consistent with legal requirements and the minimum policy target. The calculation for Adjusted Governmental Revenues in FY22 and FY23 excludes the County’s allocation of Federal Emergency Grants received through the Coronavirus Relief Fund and the American Rescue Plan Act.
- c) PAYGO, debt service, and current revenue reflect the approved FY23-28 CIP.
- d) State Aid, including MCPS and Montgomery College, is not projected to increase from FY23-28.

### **A. Revenues**

**Total revenues are estimated to increase from FY23 to FY28 at an annual average of 3.3%** (see line 6 on ©3). This annual average is greater than recent fiscal plans due to the estimated growth in revenues from the approved FY22 and FY23 budgets. Table 1 below details the annual percent change in total revenues included in the current fiscal plan. Following the estimated growth of 6.0% in FY22-23, the estimated average annual growth from FY24-28 is 2.8%.

**Table 1: Annual Estimated Growth Rate in Total Revenues FY23-28**

<b>FY22-23</b>	<b>FY23-24</b>	<b>FY24-25</b>	<b>FY25-26</b>	<b>FY26-27</b>	<b>FY27-28</b>
6.0%	2.9%	3.2%	2.5%	2.6%	2.8%

Source: FY23-28 Fiscal Plan; note FY22-FY23 uses the approved values.

Below are highlights about specific revenue sources.

- Property taxes are estimated to increase at an annual average rate of 3.1% in the current fiscal plan. This growth rate is slightly less than the estimated annual average growth rate of 3.3% for all revenues in the FY22-27 approved fiscal plan.
- Income taxes are estimated to increase at an annual average rate of 5.4% in the current fiscal plan. This is greater than the annual average growth for all revenues in the current fiscal plan and is greater than the estimated annual average rate of 5.1% for income taxes in the approved FY22-27 Fiscal Plan. Income taxes are estimated to increase from FY22-23 by 9.5%. The estimated annual average increase for income taxes is 4.6% from FY24-28.
- Recordation and transfer taxes are estimated to increase at an annual average rate of 6.6% in the current fiscal plan. This is greater than the previous estimated annual average increase in the FY22-27 Fiscal Plan. These taxes are estimated to decrease slightly in FY26 and flatline for the remainder of the current fiscal plan.
- Other taxes are estimated to increase at an annual average rate of 1.7% in the current fiscal plan. This is greater than the 0.9% annual average growth rate estimated in the FY22-27 Fiscal Plan but much less than the estimated growth rates for property, income, and recordation/transfer taxes.

## B. Resources available to allocate to agencies

Resources for agency use is an important element of the plan because it highlights the funding available for existing programs and services, as well as the opportunity to fund new programs and services if there are sufficient resources. In the current fiscal plan, resources for agency use (rows 24-27 on ©3) increased by 7.8% from the FY22 approved budget to the FY23 approved budget. This growth rate is significantly more than the 1.0% growth rate from FY21-22.

Table 2 below details the growth rate estimated for agency use in FY23-28. Resources available to agencies are a function of estimated revenues, the County's fixed commitments, and planned expenditures.

**Table 2: Annual Estimated Growth Rate (Decline) of Resources for Agency Use FY23-28**

<b>FY22-23</b>	<b>FY23-24</b>	<b>FY24-25</b>	<b>FY25-26</b>	<b>FY26-27</b>	<b>FY27-28</b>
7.8%	1.2%	3.1%	2.8%	2.7%	3.2%

Source: FY23-28 Fiscal Plan; note FY22-23 uses the approved values.

## C. Fixed commitments

**Debt service.** Debt service is expected to increase at an annual average rate of 2.0% through FY28 in the FY23-28 Fiscal Plan. **This annual average increase is less than the estimated annual average increase of the County's revenues during the same period.** See row 12 on ©3.

**PAYGO.** Council Resolution No. 19-753 states: *"The County should allocate to the CIP each year as PAYGO [cash] at least 10% of the amount of general obligation bonds planned for issue that*

year.” PAYGO is greater than the 10% policy level for FY23-28. Additional resources for PAYGO reduces the borrowing needs of the County. See row 13 on ©3.

**Current revenue funding for the CIP.** Current revenue in the CIP is estimated to average about \$93.0 million a year from FY23-28. Changes to the CIP current revenue results in an increase or decrease to resources available for agency uses. See row 14 on ©3.

**Reserves.** The County’s goal, per Resolution No. 19-753, is 10.0%. **The current fiscal plan summary meets the County’s policy for reserves.** FY23 reserves are anticipated to end greater than 10% because this estimate includes resources that will be reappropriated in FY23, including about \$8.0 million for the Early Care and Education Non-Departmental Account. Since these reappropriated resources are not appropriated in the FY23 Operating Budget, the fiscal plan includes them in the reserve calculations. Future iterations of the fiscal plan will update the reserve estimates, including for reappropriations, after the annual audit verifies the actual amount rolling over into FY23.

**OPEB.** Resolution No. 19-753 also refers to OPEB (Other Post-Employment Benefits), including pre-funding for retiree health benefits. The tax supported cost for pre-funding retiree health benefits for all agencies in FY23 is **\$62.8 million**. See rows 53 through 56 on ©4.

<u>This packet contains:</u>	<u>Circle #</u>
Proposed resolution	1
Fiscal Plan Summary FY23-28	3

Resolution No.: \_\_\_\_\_  
Introduced: \_\_\_\_\_  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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Lead Sponsor: Government Operations and Fiscal Policy Committee

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**SUBJECT:** Approval of the County's Tax Supported Fiscal Plan Summary for the FY23-FY28 Public Services Program

**Background**

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*
2. Starting in 1992, the Council's Government Operations and Fiscal Policy Committee (known until December 2010 as the Management and Fiscal Policy Committee) has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County's ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.
3. On June 29, 2010 the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 stated: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.*
4. The Council adopted Resolution No. 17-312 on November 29, 2011, replacing Resolution No. 16-1415, to strengthen the County's fiscal policies while still retaining the fiscal plan language. The Council adopted Resolution No. 19-753 on March 2, 2021, replacing

Resolution No. 17-312, to strengthen the County's reserve policy while still retaining the fiscal plan language.

5. Pursuant to these policies, the Council approved a balanced fiscal plan summary in June 2010 and has approved a balance fiscal plan summary every June thereafter.
6. The Government Operations and Fiscal Policy Committee reviewed the Tax Supported Fiscal Plan Summary for the FY23-FY28 Public Services Program on June 16, 2022.

### **Action**

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY23-FY28 Public Services Program, as outlined on the attached pages. This summary reflects:

- (1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators, revenue estimates, and other fiscal data.
- (2) the policy on County reserves as described in Resolution No. 19-753 adopted on March 2, 2021, and the amendments to the Revenue Stabilization Fund law in Bill 36-10 approved by the Council on June 29, 2010.
- (3) other specific fiscal assumptions listed in the summary.

This is a correct copy of Council action.

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Judy Rupp  
Clerk of the Council

## County Council Approved FY23-28 Public Services Program

### Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY22	Est. FY22	% Chg. FY22-23	App. FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27	% Chg. FY27-28	Projected FY28
<b>Total Revenues</b>	5-27-21		App/App	5-26-22										
Property Tax	1,884.7	1,900.0	3.5%	1,951.4	2.8%	2,005.3	3.3%	2,072.0	3.0%	2,134.4	2.9%	2,195.6	2.9%	2,258.6
Income Tax	1,708.8	1,804.2	9.5%	1,870.5	4.5%	1,954.7	5.1%	2,054.8	4.1%	2,138.9	4.6%	2,236.2	4.9%	2,344.9
Transfer/Recordation Tax	169.8	221.1	34.8%	228.9	7.8%	246.9	5.6%	260.6	-1.8%	256.0	-3.0%	248.2	0.1%	248.5
Other Taxes	244.4	259.5	9.1%	266.6	0.2%	267.2	0.8%	269.4	0.3%	270.3	0.1%	270.5	0.1%	270.7
Other Revenues	1,208.4	1,160.3	0.5%	1,214.1	0.2%	1,216.5	0.1%	1,218.2	0.3%	1,221.6	0.3%	1,225.1	0.3%	1,228.4
<b>Total Revenues</b>	<b>5,216.1</b>	<b>5,345.1</b>	<b>6.0%</b>	<b>5,531.5</b>	<b>2.9%</b>	<b>5,690.5</b>	<b>3.2%</b>	<b>5,875.0</b>	<b>2.5%</b>	<b>6,021.2</b>	<b>2.6%</b>	<b>6,175.6</b>	<b>2.8%</b>	<b>6,351.2</b>
<b>Net Transfers In (Out)</b>	<b>10.6</b>	<b>16.1</b>	<b>77.7%</b>	<b>18.8</b>	<b>2.3%</b>	<b>19.3</b>	<b>2.4%</b>	<b>19.7</b>	<b>2.4%</b>	<b>20.2</b>	<b>2.3%</b>	<b>20.7</b>	<b>2.2%</b>	<b>21.1</b>
<b>Total Revenues and Transfers Available</b>	<b>5,226.7</b>	<b>5,361.2</b>	<b>6.2%</b>	<b>5,550.4</b>	<b>2.9%</b>	<b>5,709.8</b>	<b>3.2%</b>	<b>5,894.7</b>	<b>2.5%</b>	<b>6,041.4</b>	<b>2.6%</b>	<b>6,196.2</b>	<b>2.8%</b>	<b>6,372.3</b>
<b>Non-Operating Budget Use of Revenues</b>														
Debt Service	427.4	420.5	3.4%	441.9	1.0%	446.2	3.6%	462.1	1.8%	470.5	1.7%	478.4	0.6%	481.2
PAYGO	15.5	15.5	118.7%	33.9	-9.1%	30.8	-5.2%	29.2	0.0%	29.2	-0.7%	29.0	0.0%	29.0
CIP Current Revenue	78.4	137.2	17.8%	92.4	6.4%	98.3	-7.7%	90.7	-4.7%	86.4	12.3%	97.1	-4.1%	93.1
Change in Other Reserves	-24.0	-2.1	-139.6%	-57.4	100.3%	0.2	31.3%	0.3	-0.2%	0.3	-8.6%	0.2	5.1%	0.2
Contribution to General Fund Undesignated Reserves	13.3	-78.6	-217.8%	-15.6	87.1%	-2.0	1088.1%	19.9	-15.6%	16.8	-43.0%	9.6	-30.9%	6.6
Contribution to Revenue Stabilization Reserves	27.5	73.9	-89.2%	3.0	30.9%	3.9	3.8%	4.0	3.8%	4.2	3.8%	4.3	3.8%	4.5
Set Aside for other uses (supplemental appropriations)	0.0	0.4	n/a	-1.6	1333.3%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
<b>Total Other Uses of Resources</b>	<b>538.2</b>	<b>566.9</b>	<b>-7.7%</b>	<b>496.5</b>	<b>20.3%</b>	<b>597.4</b>	<b>4.8%</b>	<b>626.3</b>	<b>0.2%</b>	<b>627.4</b>	<b>1.8%</b>	<b>638.6</b>	<b>-0.6%</b>	<b>634.6</b>
<b>Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)</b>	<b>4,688.6</b>	<b>4,794.3</b>	<b>7.8%</b>	<b>5,053.9</b>	<b>1.2%</b>	<b>5,112.4</b>	<b>3.1%</b>	<b>5,268.4</b>	<b>2.8%</b>	<b>5,414.0</b>	<b>2.7%</b>	<b>5,557.6</b>	<b>3.2%</b>	<b>5,737.7</b>
<b>Agency Uses</b>														
Montgomery County Public Schools (MCPS)	2,551.6	2,524.5	7.0%	2,729.7										
Montgomery College (MC)	265.5	245.6	3.7%	275.3										
MNCPPC (w/o Debt Service)	143.8	143.8	7.0%	153.9										
MCG	1,727.8	1,880.5	9.7%	1,895.1										
<b>Agency Uses</b>	<b>4,688.6</b>	<b>4,794.3</b>	<b>7.8%</b>	<b>5,053.9</b>	<b>1.2%</b>	<b>5,112.4</b>	<b>3.1%</b>	<b>5,268.4</b>	<b>2.8%</b>	<b>5,414.0</b>	<b>2.7%</b>	<b>5,557.6</b>	<b>3.2%</b>	<b>5,737.7</b>
<b>Total Uses</b>	<b>5,226.7</b>	<b>5,361.2</b>	<b>6.2%</b>	<b>5,550.4</b>	<b>2.9%</b>	<b>5,709.8</b>	<b>3.2%</b>	<b>5,894.7</b>	<b>2.5%</b>	<b>6,041.4</b>	<b>2.6%</b>	<b>6,196.2</b>	<b>2.8%</b>	<b>6,372.3</b>
<b>(Gap)/Available</b>	<b>0.0</b>	<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>

**Assumptions:**

- Property taxes are at the Charter Limit with a \$692 credit. Other taxes are at current rates.
- Reserve contributions are consistent with legal requirements and the minimum policy target. The calculation for Adjusted Governmental Revenues in FY22 and FY23 excludes the County's allocation of Federal Emergency Grants received through the Coronavirus Relief Fund and the American Rescue Plan Act.
- PAYGO, debt service, and current revenue reflect the Approved FY23-28 Capital Improvements Program.
- State Aid, including MCPS and Montgomery College, is not projected to increase from FY23-28.

## County Council Approved FY23-28 Public Services Program

### Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY22	Est. FY22	% Chg. FY22-23	App. FY23	% Chg. FY23-24	Projected FY24	% Chg. FY24-25	Projected FY25	% Chg. FY25-26	Projected FY26	% Chg. FY26-27	Projected FY27	% Chg. FY27-28	Projected FY28
<b>Beginning Reserves</b>														
Unrestricted General Fund	82.1	169.4	10.7%	90.9	-17.2%	75.2	-2.7%	73.2	27.2%	93.2	18.1%	110.0	8.7%	119.6
Revenue Stabilization Fund	403.8	444.6	28.4%	518.5	0.6%	521.5	0.7%	525.4	0.8%	529.4	0.8%	533.6	0.8%	537.9
<b>Total Reserves</b>	<b>485.9</b>	<b>614.0</b>	<b>25.4%</b>	<b>609.4</b>	<b>-2.1%</b>	<b>596.7</b>	<b>0.3%</b>	<b>598.6</b>	<b>4.0%</b>	<b>622.6</b>	<b>3.4%</b>	<b>643.6</b>	<b>2.2%</b>	<b>657.5</b>
<b>Additions to Reserves</b>														
Unrestricted General Fund	13.3	-78.6	-217.8%	-15.6	87.1%	-2.0	1088.1%	19.9	-15.6%	16.8	-43.0%	9.6	-30.9%	6.6
Revenue Stabilization Fund	27.5	73.9	-89.2%	3.0	30.9%	3.9	3.8%	4.0	3.8%	4.2	3.8%	4.3	3.8%	4.5
<b>Total Change in Reserves</b>	<b>40.8</b>	<b>-4.6</b>	<b>-131.0%</b>	<b>-12.7</b>	<b>114.7%</b>	<b>1.9</b>	<b>1188.6%</b>	<b>24.0</b>	<b>-12.3%</b>	<b>21.0</b>	<b>-33.7%</b>	<b>13.9</b>	<b>-20.1%</b>	<b>11.1</b>
<b>Ending Reserves</b>														
Unrestricted General Fund	95.3	90.9	-21.1%	75.2	-2.7%	73.2	27.2%	93.2	18.1%	110.0	8.7%	119.6	5.5%	126.2
Revenue Stabilization Fund	431.3	518.5	20.9%	521.5	0.7%	525.4	0.8%	529.4	0.8%	533.6	0.8%	537.9	0.8%	542.4
<b>Total Reserves</b>	<b>526.7</b>	<b>609.4</b>	<b>13.3%</b>	<b>596.7</b>	<b>0.3%</b>	<b>598.6</b>	<b>4.0%</b>	<b>622.6</b>	<b>3.4%</b>	<b>643.6</b>	<b>2.2%</b>	<b>657.5</b>	<b>1.7%</b>	<b>668.6</b>
<b>Reserves as a % of Adjusted Governmental Revenues</b>	<b>9.6%</b>	<b>10.9%</b>		<b>10.2%</b>		<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>		<b>10.0%</b>
<b>Other Reserves</b>														
Montgomery College	27.7	34.6	-13.7%	23.9	0.0%	23.9	0.0%	23.9	0.0%	23.9	0.0%	23.9	0.0%	23.9
M-NCPPC	4.9	7.3	20.7%	5.9	2.8%	6.1	3.3%	6.3	3.0%	6.4	2.8%	6.6	2.9%	6.8
MCPS	0.0	35.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
MCG Special Funds	0.9	11.7	68.6%	1.4	1.9%	1.5	3.7%	1.5	4.1%	1.6	3.0%	1.6	3.1%	1.7
<b>MCG + Agency Reserves as a % of Adjusted Govt Revenues</b>	<b>10.2%</b>	<b>12.5%</b>		<b>10.8%</b>		<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>		<b>10.5%</b>
<b>Retiree Health Insurance Pre-Funding</b>														
Montgomery County Public Schools (MCPS)	73.0	73.0		57.4		57.4		57.4		57.4		57.4		57.4
Montgomery College (MC)	5.6	5.6		1.7		1.7		1.7		1.7		1.7		1.7
MNCPPC	2.7	2.7		3.7		3.5		3.4		3.2		3.2		3.2
MCG	10.8	10.8		0.0		0.0		0.0		0.0		0.0		0.0
<b>Subtotal Retiree Health Insurance Pre-Funding</b>	<b>92.2</b>	<b>92.2</b>		<b>62.8</b>		<b>62.6</b>		<b>62.5</b>		<b>62.3</b>		<b>62.3</b>		<b>62.3</b>
<b>Adjusted Governmental Revenues</b>														
<b>Total Tax Supported Revenues</b>	<b>5,214.7</b>	<b>5,345.1</b>	<b>6.1%</b>	<b>5,531.5</b>	<b>2.9%</b>	<b>5,690.5</b>	<b>3.2%</b>	<b>5,875.0</b>	<b>2.5%</b>	<b>6,021.2</b>	<b>2.6%</b>	<b>6,175.6</b>	<b>2.8%</b>	<b>6,351.2</b>
<b>Capital Projects Fund</b>	<b>131.7</b>	<b>131.7</b>	<b>17.1%</b>	<b>154.3</b>	<b>0.4%</b>	<b>154.9</b>	<b>31.0%</b>	<b>202.9</b>	<b>29.3%</b>	<b>262.4</b>	<b>-5.9%</b>	<b>246.8</b>	<b>-27.5%</b>	<b>179.0</b>
<b>Grants</b>	<b>129.2</b>	<b>129.2</b>	<b>5.5%</b>	<b>136.3</b>	<b>2.3%</b>	<b>139.4</b>	<b>2.4%</b>	<b>142.7</b>	<b>2.4%</b>	<b>146.1</b>	<b>2.3%</b>	<b>149.4</b>	<b>2.2%</b>	<b>152.7</b>
<b>Total Adjusted Governmental Revenues</b>	<b>5,475.6</b>	<b>5,606.0</b>	<b>6.3%</b>	<b>5,822.1</b>	<b>2.8%</b>	<b>5,984.8</b>	<b>3.9%</b>	<b>6,220.6</b>	<b>3.4%</b>	<b>6,429.7</b>	<b>2.2%</b>	<b>6,571.8</b>	<b>1.7%</b>	<b>6,682.9</b>